

MEMORANDUM

Date: August 1, 2002

To: Members of the Intergovernmental Relations Committee
Council Member Scott Benson, Chair – IGR Committee
Council Member Lisa Goodman
Council Member Barret Lane
Council Member Natalie Johnson Lee
Council Member Paul Ostrow
Council Member Paul Zerby

From: Patrick P. Born, City Finance Officer

Re: Minneapolis Fire Relief Association

City Council Resolution 2000R-061 (February 18, 2000) includes the following policy statement:

“if the Minneapolis Fire Relief Association fails to maintain pension fund management practices consistent with professional fiduciary responsibilities, the City will seek legislation that would transfer responsibilities for investing pension assets from the local association to the State Board of Investment.”

The purpose of this memorandum is to provide a status report to the Mayor and Intergovernmental Relations Committee on the pension fund management practices of the Minneapolis Fire Relief Association (MFRA). The table below lists the pension fund management practices recommended by the City Finance Officer in a December 13, 1999, letter to the Intergovernmental Relations Committee and the current state of pension fund management practices. This report has been distributed to the MFRA Board President and Executive Secretary so that MFRA may comment on these findings.

The Mayor and IGR Committee may wish to use the information of this report as well as MFRA’s response to this report in making any determination that would result in proposed legislation.

Recommended Practice	Status
<i>Hire independent investment advisor</i>	<p>Satisfied in part. MFRA has contracted with Standard Valuation to provide investment advisor services, however, Standard Valuation may not be qualified to serve as an investment advisor.</p> <p>In May 2000 MFRA selected Jeffrey Slocum & Associates, Inc. as independent investment advisor using a competitive procurement process. On July 31, 2001 Slocum terminated its agreement with MFRA, and MFRA engaged Standard Valuation, Inc. as independent investment advisor. The selection of Standard Valuation was made without benefit of a competitive selection process. During the process that resulted in the appointment of Slocum as independent investment advisor, Standard Valuation was judged by a subcommittee of MFRA's Board not to be qualified to act as independent investment advisor. MFRA's Board subsequently overrode the subcommittee's judgement and entered into a contract with Standard Valuation for investment advisory and valuation services. Unless Standard Valuations has acquired the expertise to serve as independent investment advisor, Standard Valuations may not be qualified to serve in this capacity for MFRA.</p>
<i>Hire general counsel</i>	<p>Satisfied in part. The law firm of Rice, Michels & Johnson has been engaged as general counsel to MFRA, but was appointed without a competitive selection process.</p>
<i>Hire professional pension administrator</i>	<p>Not satisfied. MFRA does not employ a professional pension administrator. The Executive Secretary to the MFRA is a fire service professional, and is not a professional pension administrator.</p>
<i>Hire experienced custodial bank</i>	<p>Not satisfied. Union Bank and Trust serves as custodial bank, however, Union was hired after a truncated competitive procurement process and Union may not be qualified to serve as custodial bank. Within the past two years</p>

	MFRA has issued a request for proposal for custodial bank service, but did not fully evaluate proposals before re-appointing Union Bank as custodial bank. Based on the findings of a consultant (Mercer) completed prior to MFRA's appointment of Union Bank to the Minneapolis Police Relief Association (MPRA) Union Bank & Trust was determined not to be a full service bank and not qualified to act as a custodial bank to MPRA..
<i>Use competitive procurement practices</i>	Not satisfied. MFRA has not used a competitive procurement practice in the hiring of its investment advisor, general counsel, or custodial bank.
<i>Adhering to investment practices that advance the interest of the Association membership and beneficiaries</i>	Not satisfied. In addition to the above findings, MFRA is not currently following Board approved investment policies in the selection and direction of investment managers. The failure of MFRA to follow its investment policies combined with failing to fully meet any of the criteria for professional investment management practices call in question the ability of MFRA to manage its investments in a manner that is in the best interests of the Association.

By this letter I am informing the Mayor and members of the IGR Committee of these findings. If the Committee agrees with these findings the City would support legislation transferring the investing activities of the MFRA to the State Board of Investment.

cc: R.T. Rybak, Mayor
John Moir, City Coordinator
Andrea Hart-Kajer, Director- Intergovernmental Relations
Thomas Fyle, President – MFRA
Walter Schirmer, Executive Secretary - MFRA